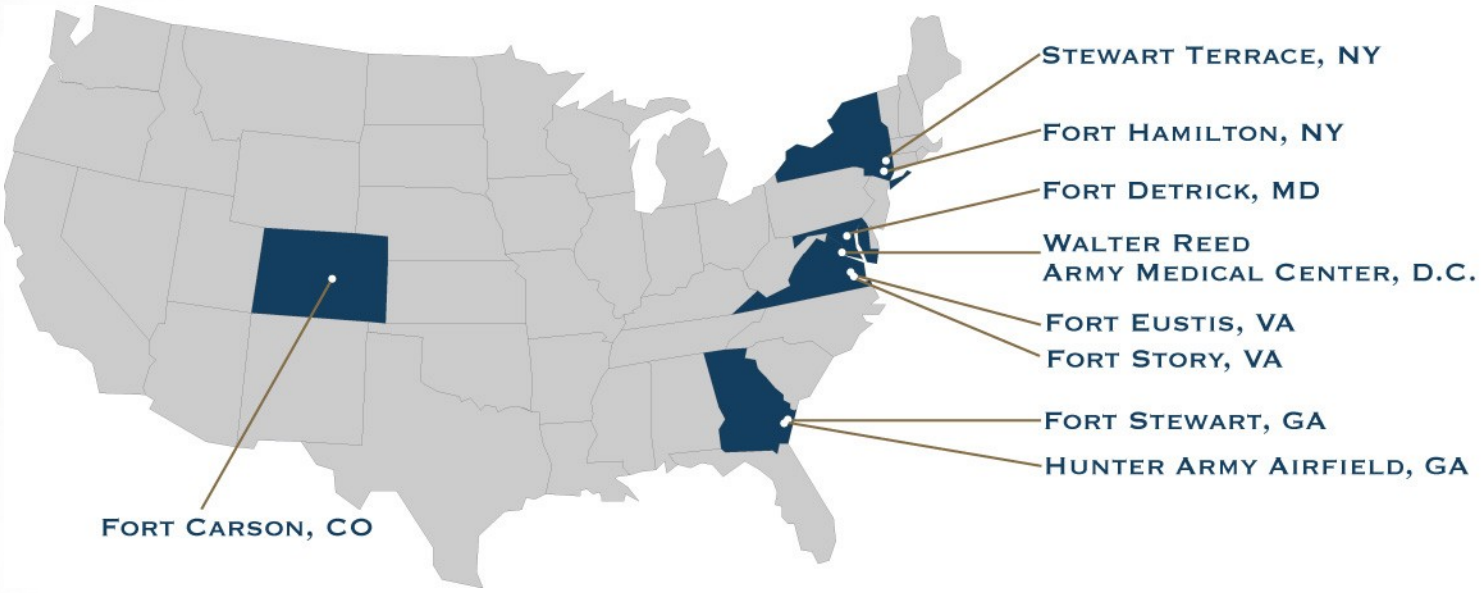
PHMA Privatization Forum
Denver, Colorado

January 26, 2004

Current Projects



Agenda

- Overview
- Challenges / Lessons Learned
- Process Improvements
- Overall Assessment

Overview

- The timelines to execution are getting shorter.
- Capital Markets have embraced the program.
- Partnering is key to continued success.
- Industry leaders are competing for the projects.
- Military families are being rewarded for their sacrifices.

Hunter Army Airfield

Challenges

- Insurance Costs
- BAH Changes
- Rent Collection
- Taxes
- Scope protection following selection
- Communication (internal & external)

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Insurance Costs

- Includes General Liability, Property, and Renter's Insurance
- Issues include:
  - Escalating costs
  - Increasing coverage requirements
  - Loss history is unknown to insurance industry
  - Limited number of providers
- Potential improvements:
  - Pool projects
  - Self-insure

Fort Detrick

BAH Changes

- BAH is the life-blood of the projects.
- Annual changes are difficult to predict.
  - Vary widely and WILDLY
  - Cohen Initiative has one year left
- Our participation in the process is absolutely necessar

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Rent Collection

- In arrears, principally through allotment
- Utilize 3rd party (MAC) to assist with collection
- Rejections often occur due to:
  - Over-allotment
  - Voluntary cancellation of allotment
  - Garnishments by others

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Mandatory allotment (payroll deduction) would solve the majority of rejections.

Taxes

- Includes Real Estate, Transfer, Recording Taxes
- A sensitive issue to local municipalities
- Considerable effort required to formulate arguments
  (if warranted)
- Assessment of taxes could have significant, negative impact on projects.

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Scope Protection

- Following selection, many factors can potentially alter the scope:
  - Interest Rates
  - BAH Changes
  - Insurance Rates
  - Unforeseen Environmental Impacts
  - Changing Standards

- Creative planning and financial structures may overcome some of these variables.

Stewart Terrace

Communication

- Need to keep all stakeholders involved and informed throughout planning and execution stages.

- Recognize that internally (on-base), not everyone is as focused on housing privatization as we are.

Fort Eustis

- Recognize that externally (off-base), more people are focused on housing privatization than you think.

Process Improvements

- Qualification Requirements
- Identification and Maintenance of Minimum Standards
- Normalizing Variables

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Qualification Requirements

- Requirements generally have not changed.
- Repeated qualification should be unnecessary.
- For teams that remain unchanged, abbreviated qualification should suffice.
- RCI has done this already for qualification references.

Fort Story

Minimum Standards

- Minimum design and construction standards help to ensure consistent quality of life for families.
- Not all standards can be applied to every location (and perhaps should not).
- Regional consideration should be made.
- We and our competitors can assist in developing and updating the standards (Advisory Council).
- Note that lenders and insurers have approval rights for application of revised standards to “closed” deals.

Walter Reed Army Medical Center

Normalizing Variables

- Many variables can alter proposals.
- Risk evaluation is often inconsistent.
- To avoid inconsistent evaluation, normalizing some of the basic variables could help:
  - Interest Rates
  - BAH Increases
  - Escalation Increases
  - Debt Service Coverage Ratios
  - Historical Housing Renovation/ Costs

Overall Assessment

- MHPI is a great success!
- Military families are very pleased with the improvements.
- Need to address barracks as well.

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We're honored and proud to be a part of the program!